Service Date: February 28, 1990

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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| In the Matter of the Application | ) | UTILITY DIVISION |
| of U S West Communications for | ) | |
| Authority to Establish Rates to | ) | DOCKET NO. 88.12.55 |
| Recover Increased Costs Associated | ) | |
| with 1989 Separations Changes. | ) | Order 5398a |
| | ) | |

## FINDINGS OF FACT

1. On December 2, 1988, U S West Communications (USWC) filed an application for authority to increase rates to recover the intrastate revenue requirement associated with 1989 separations changes. The amount of the increase was $3,095,000 in additional annual revenues. At the same time, USWC filed an application for interim relief. The company agreed to make a rate case filing in 1989 so that all aspects of the Company's operations could be reviewed.

2. This separations rate increase is made up of two parts; (1) the Subscriber Plant Factor (SPF) Phase-down and (2) the Category 3 Phase-in. The SPF is used to allocate to the interstate jurisdiction a portion of the telephone plant that is subscriber related. The plant allocated by the SPF includes the local loop and a portion of the central office switch. This plant has been called "non-traffic sensitive" or NTS since the costs do not normally vary with the amount of usage on this plant. The SPF was frozen at 1981 levels and subsequently ordered reduced to a flat 25 percent over an eight year period

which began in 1986. In Montana, the frozen SPF was 0.445029 and the annual reduction amount was 0.024379. This represents the annual percentage of SPF allocated investment and expense that is transferred from the interstate jurisdiction to the intrastate jurisdiction. The 1989 SPF was 0.347515 effective January 1, 1989. The revenue requirement for SPF for 1989 was $2,143,000.

3. Category 3 is a combination of old categories 4, 5, 6 and 7 with over 95 percent of the investment from old central office category 6. Old Category 6 was defined as Local Dial Switching Equipment and included the basic switching train, toll connecting trunk equipment, and toll completion trains. The new category will be allocated on the basis of measured dial equipment minutes (DEM). The FCC has ordered this process be phased-in over a five year period beginning in 1988. 10 percent of the phase-in was accomplished in 1988, with an additional 20 percent scheduled annually through 1992. The Category 3 revenue requirement for 1989 was $952,000.

4. On December 22, 1988, the Commission issued a Notice of Commission Action which gave interested parties until January 6, 1989, to comment on the following issues:

(1) The appropriateness from both a legal and policy standpoint, of a one issue "Tracker"-type Commission procedure, for FCC mandated separations changes, and

(2) Whether or not the Commission should waive its minimum filing requirements in this matter, as provided by ARM 38.5.2801 et seq. and 38.5.501 et seq.

5. On January 4, 1989, Montana Consumer Counsel (MCC) filed comments in response to the Notice of Commission Action. The comments indicated a general support for full rate case filings where all items of plant, revenue and expense can be

examined together. However, MCC went on to indicate that Docket 88.12.55 was premised on unique circumstances which justified consideration of a "single-item" type request. The Company is requesting rate relief as a result of Federally ordered separations changes. This is an industry-wide occurrence which is known with certainty, and which has a substantial impact on the Company's intrastate expenses. Moreover, the Company had proposed a method in its filing whereby full opportunity to examine the rest of the Company's operations would be afforded prior to Commission approval becoming final. Under those circumstances, MCC did not ob to the form of the Company's filing. MCC also commented that the Commission could reasonably waive its minimum filing requirements.

6. On March 2, 1989, the Commission adopted Interim Order No. 5398 which granted $3,095,000 on an interim basis. The revenue requirement in that order was implemented coincident with the revenue decrease ordered in Docket No. 88.1.2, Order No. 5354a. In Interim Order No. 5398, the Commission granted USWC a waiver, pursuant to ARM 38.5.2202, of the minimum rate case filing requirements for telephone utilities as contained in Subchapter 28 of Title 38, ARM.

7. On August 11, 1989, the Commission received a letter from USWC which waived the nine-month time period of Section 69-3-302, MCA, in this Docket. USWC waived the time period through December 31, 1989.

8. On August 31, 1989, USWC filed a revenue requirement for a test period ended January, 1989. That filing indicated a revenue requirement of $10,273,000. USWC did not request a rate increase to match the indicated revenue deficiency.

9. On October 19, 1989, USWC filed a revised revenue requirement for a test period ended January, 1989. That filing indicated a negative revenue requirement of $546,000. In this filing a rate of return on equity of 12.5 percent was used. USWC stated that the adjusted test period revenue requirement supported the retention of the interim rates granted in Interim Order No. 5398.

10. On November 22, 1989, the Commission issued a Notice of Opportunity for Public Hearing. The Notice stated that requests for hearing were due by December 22, 1989. No protests or requests for hearing were received.

11. On December 19, 1989, the Commission received a letter from USWC which again extended the nine-month deadline. This second waiver extended the time period to consider the matters in this Docket until January 31, 1990.

12. On January 25, 1990, USWC filed a stipulation between USWC and MCC. A copy of the stipulation is attached to this order as Attachment A. After negotiations were held, the par ties agreed to a test period revenue requirement. In the stipulation, the parties agreed that the annual revenue requirement approved in Interim Order No. 5398 should be reduced by $2,415,000. That revenue requirement was calculated using ratemaking adjustments for directory profits, affiliated interest transactions, a hypothetical capital structure, pro forma interest, reductions in the level of access charges paid by USWC to TECOM and a return on equity of 12 percent. The stipulation contemplates that $2,415,000 in annual revenues should be refund ed to ratepayers, together with interest at the annual rate of 12 percent. This appears to result in an ongoing annual revenue reduction of $2,415,000 and a single refund of $2,464,000.

13. After due consideration, the Commission finds that the revenue requirement agreed to by the parties is a reasonable compromise on a number of issues which of course would be con tested in a normal rate case. The Commission approves the revenue requirement in the stipulation with the realization that both parties would advocate other positions in a contested case. As to the return on equity, 12 percent is a reasonable rate given recent interest rate trends. The Commission is pleased that the revenue requirement in this stipulation takes into account recent decreases in access charges paid to TECOM. Due to the timing of the test year, it is the case that separations changes for the 1990 year are also reflected in the revenue requirement.

## COST OF SERVICE/RATE DESIGN

14. In this section of the order the rate design proposed by USWC and MCC (hence forth referred to as parties) is summarized, followed with the Commission's decision. Though no record exists in this docket, the following summary and decision is based on USWC's and MCC's stipulation and supporting work papers provided by USWC in conjunction with this docket.

15. USWC and MCC agreed to the following permanent rate reductions pursuant to the annual revenue requirement reduction of $2,415,000. First, the monthly price for TouchTone service would be reduced from $1.46 and $2.81 to $1.00 and $1.40 for residence and business customers, respectively. Additionally, the parties propose the nonrecurring TouchTone price be reduced from $9.60 to $3.00 for residence and business customers. Aside from direct effects on TouchTone service, these reductions would affect the recurring and nonrecurrinq prices for TeenLink service and the recurring prices of Unlimited Packages I and II and Measured Telechoice services. In addition to these price

changes acting as an initial step toward eventual elimination of TouchTone charges, the parities note that TouchTone can "increasingly he viewed as integral to basic telephone service" (USWC/MCC Stipulation, p. 6). These price changes account for roughly $1.961 million.

16. The parties propose the approximate remaining $454,000 revenue reduction be applied to Message Telecommunications Service (MTS), Wide Area Telecommunications Service (WATS) and. Carrier Access services using a uniform percent reduction of about .82 percent. The parties propose the reduction for MTS be made by reducing the initial and subsequent minute charges at the longest mileage band by $.01 and proceeding through the next shorter bands until the required reduction is accomplished. This results in reductions to the initial minute price for the outer most band and reductions to the additional minute in the three outer most bands. The proposed reduction to WATS results in roughly uniform price reductions for all hours of use and no change in the access price for both 800 Service and OutWATS. Finally, Carrier Access charges would be reduced by lowering the Carrier Common Line price from $.0236 per minute to roughly $.0231. The parties support this rate design because it pro vides benefits to a broad customer group and affects services which provide a large contribution to common cost recovery at current prices.

17. As regards the $2,464,131 refund, assuming a March 1, 1990, effective date, the parties propose a credit to each access line for service rendered during March 1990. The parties anticipate an approximate reduction of 4 percent of annualized exchange access revenues. For illustrative purposes, this reduction would result in about a

$6.60 and $18.60 reduction in March 1990 bills for residential and business customers, respectively.

18. The Commission finds the rate design stipulated between and recommended by USWC and MCC reasonable and adopts their proposals. However, the Commission would note the absence of any underlying cost data to support the pre- or post-stipulation prices and, therefore, continues to highlight its concern with USWC's economic cost of service as stated in Order Nos. 5354d and 5354e. In this case, the Commission is concerned whether all reduced prices, including that for Carrier Access charges, at least cover the economic cost of service.

## CONCLUSIONS OF LAW

1. USWC offers regulated telecommunications services in the state of Montana and is a public utility pursuant to Section 69-3-101, MCA. The Commission has authority to supervise, regulate, and control public utilities. Section 69-3-102, MCA.

2. The Commission properly exercises jurisdiction over USWC's Montana operations pursuant to Title 69, Chapter 3, MCA.

3. The Commission has provided adequate public notice of all proceedings herein and an opportunity to be heard, to all interested parties in this docket. Section 69-3-303, MCA, and the Montana Administrative Procedure Act, Title 2, Chapter 4, MCA.

4. The revenue requirement, rate design and rate levels approved herein are just, reasonable and nondiscriminatory. Sections 69-3-201 and 69-3-330, MCA.

## ORDER

1. USWC is hereby GRANTED a $2,415,000 decrease in annual revenues on a final basis.

2. The January 24, 1990, stipulation between USWC and MCC, with respect to revenue requirement and rate design, is accepted and approved.

3. USWC is ordered to comply with all findings, directions and requirements of the Commission set forth in the above Findings of Fact, which are hereby incorporated herein by this reference.

4. Pursuant to Section 69-3-304, MCA, the Commission orders a refund of a portion of the interim revenue increase granted in Order No. 5398, effective for services rendered on and after March 14, 1989. The amount which the company must refund will he based upon this order’s revenue reduction of $2,415,000 of the interim increase of $3,095,000 on an annual basis, from the date the rates approved in Order No. 5398 became effective (March 14, 1989) until the date the rates approved in this order become effective, plus interest at the rate of 12 percent per annum. This refund shall he calculated and credited to customers’ bills as described in the stipulation.

5. USWC shall file rate schedules that reflect the revenue requirement and rate structure approved herein. The rates granted herein shall be effective upon filing and approval by the Commission staff.

6. USWC shall also file with the Commission and MCC workpapers supporting the proposed rate schedules and refund.

DONE AND DATED this 26th day of February, 1990, by a 5 to 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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CLYDE JARVIS, Chairman

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HOWARD L. ELLIS, Commissioner

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WALLACE W. “WALLY” MERCER, Commissioner

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DANNY OBERG, Commissioner

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JOHN B. DRISCOLL, Commissioner

ATTEST:

Ann Peck
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.

Attachment A

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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| IN THE MATTER OF THE Application of | ) | |
| U S WEST COMMUNICATIONS (MOUNTAIN BELL) | ) | |
| for Authority to Establish Rates to | ) | Docket No. 88.12.55 |
| Recover Increased Costs Associated | ) | |
| with 1989 Separations Changes | ) | |
| ________________________________________________ | ) | |

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STIPULATION OF U S WEST COMMUNICATIONS
AND THE MONTANA CONSUMER COUNSEL

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U S WEST Communications (USWC) and the Montana Consumer Counsel (MCC), acting through their undersigned counsel, present the following stipulation for the consideration of the Montana Public Service Commission (PSC or Commission).

1. This Docket was opened on December 2, 1988, when USWC filed its application for a rate increase of $3,095,000 effective January 1, 1989, to offset the increase in its Montana intrastate revenue requirement scheduled for that same date as a result of certain Federal Communications Commission orders affecting separations procedures. USWC indicated in its testimony supporting the application that it expected to file in the summer of 1989 a general rate case based upon a test period ending January,

1989, and that such a case would permit the P50 and MCC to evaluate the impact of return on equity which neither party would support in a fully-contested rate case proceeding. Additionally, USWC has made an additional reduction to its filed income tax figures.

7. The parties are in agreement that, on the basis of the revenue requirement discussed above, a refund to ratepayers is appropriate. The parties agree that USWC is entitled to retain $680,000 in annual revenues as a result of this Docket. The difference between that figure and $3,095,000, or $2,415,000, should be refunded to ratepayers, together with interest at the annual rate of 12%. The amount of the refund, assuming an effective date of March 1, 1990, for tariffs effecting the rate changes and refund credits discussed herein, is $2,464,131.

8. The parties believe that an appropriate rate design by which to accomplish the rate changes discussed herein is as follows:

a. Permanent rate reduction. The on-going rate reduction of $2,415,000 in annual revenues should be implemented through reductions in service charges for several products. Monthly Touch-Tone recurring service charges for residence customers would drop from $1.46 to $1.00, while nonrecurring charges would drop from $9.60 to $3.00. Monthly charges for Touch-Tone to business customers would drop from $2.81 to $1.40, while nonrecurring charges would be on the same basis as those assessed residence customers. The balance of the reduction following lowering of Touch-Tone charges would be applied on a uniform percentage basis of approximately .82% to message toll, WATS, 800 and Carrier Access services. The initial and subsequent rates per minute for message toll service would be reduced by $.0l, with this reduction beginning at the longest mileage band and then proceeding through the next smaller bands until the required reduction was accomplished. WATS and 800 rates would be reduced by applying this percentage reduction. Finally, Carrier Access rates would be reduced by lowering the Carrier Common Line Charge by this same percentage.

b. The refund of $2,464,131 should be accomplished through a credit for each access line for service rendered in the month of March, 1990. This credit, the amount of which will be determined by USWC and verified by MCC, would be calculated on a percentage reduction basis. While precise calculations are not available, it is anticipated that this reduction would approximate 4% of annualized exchange access revenue. For illustration, a reduction of this type would result in a decrease in March bills for this service of approximately $6.60 for a residence customer and approximately $18.60 for a business customer.

9. The parties support this rate design because:

a. it provides rate benefits to a broad customer group;

b. it affects services which all provide a high rate of contribution to common cost recovery at current rate levels;

c. as regards Touch-Tone service,

i; there is an increasingly high demand for tone-producing telephone sets as equipment prices decline, and this trend is likely to intensify. As it does, Touch-Tone can increasingly be viewed as integral to basic telephone service, a view that is becoming fairly common among regulatory agencies, and

ii. a reduction in rates for Touch-Tone service can be viewed as an initial step toward the eventual elimination of these charges.

10. The parties have discussed USWC's desire to initiate discussions regarding a system of regulating its revenue requirement that utilizes procedures other than traditional rate cases. Expressing no opinion as to the desirability of such changes, MCC has indicated to USWC that serious consideration of any alternative would have to be accompanied by assurance that the beginning rates for any new regulatory system are appropriate. USWC has distributed documents discussing one type of alternative system. This distribution was not a formal filing of a plan, but rather provided information so that interested parties could discuss the relevant legal and policy questions that any such plan will raise. USWC will also, in the first quarter of 1990, provide MCC and the PSC staff with financial exhibits and supporting material detailing its revenue requirement in a test period ending September, 1989. Due to limitations inherent in USWC's system for generating deregulated product financial information, calculations for a test period deregulation adjustment will be unavailable at the time this information is provided. USWC and MCC agree to discuss this adjustment, and to seek a means of resolving the "matching" issue. Following provision of this test period information, the parties will begin work toward negotiation of a 1990 rate level that is believed by each party to be appropriate. It is anticipated that the PSC staff will involve itself in these discussions to the extent it feels is desirable.

11. This stipulation is made for settlement purposes only. Neither party by entry into this stipulation shall be deemed to have accepted, agreed to or conceded any particular ratemaking or legal principle underlying the agreed to revenue requirement.

DATED this _24_ day of January, 1990.

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